



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 31, 1999

MEMORANDUM FOR: Kenneth Prewitt
Director
Bureau of the Census

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *Census Bureau's FY 1998 Financial Statements*
Audit Report No. FSC-10865-9-0001

The attached audit report presents an unqualified opinion on the fiscal year 1998 Consolidated Balance Sheet for the Bureau of the Census (Census), but a disclaimer of opinion on the related Statement of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. Also provided are reports on Census's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by Census.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities of each office, bureau, and activity of the Department. The independent certified public accounting firm of Ernst & Young LLP (E&Y) was contracted to audit the Census Consolidated Balance Sheet and related statements for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

E&Y disclaimed an opinion on Census's Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing because Census did not adequately perform reconciliations and produce accurate financial statements on a timely basis with sufficient quality assurance procedures. As discussed in the first material weakness in the Report on Internal Control, Census lacked adequate financial management systems, reports and oversight to prepare accurate and timely financial statements.

Census's inability to produce timely financial statements had an adverse effect on the Department of Commerce's ability to meet the legislatively mandated March 1 deadline for producing audited consolidated financial statements. Census management, at the highest level, must make financial management improvement a top priority. Addressing the material weaknesses and reportable conditions in the attached reports is a prerequisite to improving financial responsibility.

We encourage Census management to make concerted efforts to improve the internal control structure and promptly implement corrective actions for the preparation of financial statements for FY 1999. Census must intensify its efforts to meet the FY 1999 financial statement deadlines in order for the Department of Commerce to meet the March 1, 2000 deadline.

As discussed in the second material weakness in the Report on Internal Control, E&Y identified invalid obligations totaling \$3.3 million. Census agreed the obligations were not valid and processed adjustments to the financial records. This \$3.3 million represents funds to be put to better use.

E&Y's Report on Internal Control contains six reportable conditions in the Census internal control structure, two of which are material weaknesses:

Material Weaknesses

- Lack of adequate financial management systems, reports and oversight to prepare accurate and timely financial statements.
- Lack of adequate support for accounts payable and undelivered orders balances.

Reportable Conditions

- Differences between fixed asset subsidiary records and periodic inventory results not researched and resolved timely or adequately (Repeat Condition).
- Lack of policies and procedures for determining the actual cost of items held in inventory for sale to other government agencies and to the general public (Repeat Condition).
- Application of a Working Capital Fund surcharge is inconsistent with the Census and Federal Financial Accounting Standard policy of applying costs evenly using a predetermined rate structure.
- Weaknesses in general controls associated with information technology processes related to the Commerce Administrative Management System (CAMS).

E&Y identified one instance of non-compliance in its Report on Compliance with Laws and Regulations. Under FFMIA, the auditors are required to report on whether Census's financial management systems substantially complies with Federal financial management system requirements, applicable accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. The Report on Internal Control includes information related to the financial management systems that were found not to comply with Federal financial management system requirements and applicable accounting standards.

Our office reviewed the draft version of Census's FY 1998 overview to its financial statements and we informally provided Census management with a memo containing our suggestions for improvement of this essential component of the financial statements. The overview should provide the link between the financial statements and the Government Performance and Results Act of 1993, which requires government entities to collect and report information on their performance in meeting goals and objectives. While the overview incorporates some of our comments from the previous year's review, the final overview is generally not responsive to this year's comments. The overview lacks historical data for trend analysis, target data for FY 1998, variances between actual and target results and limited discussion of challenges and management efforts to address them. Consequently, the discussion of results could be strengthened.

The OIG realizes that improving the overview is an iterative process. We encourage Census to strengthen next year's discussion of actual results by incorporating our observations and recommendations.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan is Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas J. McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by the Bureau of the Census during the audit.

Attachment

cc: Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

Robert J. Shapiro
Under Secretary for Economic Affairs

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